

G-011/M-91-673 ORDER PARTIALLY GRANTING REQUEST AND REQUIRING
FURTHER FILINGS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
Cynthia A. Kitlinski	Commissioner
Dee Knaak	Commissioner
Norma McKanna	Commissioner

In the Matter of a Request by
Peoples Natural Gas Company for
a Change in Firm Entitlements

ISSUE DATE: June 30, 1992

DOCKET NO. G-011/M-91-673

ORDER PARTIALLY GRANTING REQUEST
AND REQUIRING FURTHER FILINGS

PROCEDURAL HISTORY

On September 9, 1991, Peoples Natural Gas (Peoples or the Company) filed a request for an increase in firm entitlements, 1,900 units from the Northern Natural Gas (NNG) system and 1,900 units from the Viking system. The Company proposed assigning the costs of the new entitlements through the Purchased Gas Adjustment (PGA) to all of its firm General Service Minnesota customers.

On November 15, 1991, the Department of Public Service (the Department) filed a report and recommendation advocating limiting the requested increases to 1,007 units from each contract. The Department also questioned Peoples' ability to meet firm customers' needs if a heating season design-day occurs in November or March.

Peoples responded to the Department's report on February 14, 1992. On February 25, 1992, the Department filed responsive comments. The Department recommended that the Commission require Peoples to submit certain informational filings if the entitlements were approved.

The matter came before the Commission for consideration on June 2, 1992.

FINDINGS AND CONCLUSIONS

I. Peoples' Request for Firm Entitlements

In its September 9, 1991 filing, Peoples asked to be allowed to purchase an additional 1900 units of 12 month Firm Transportation (FT) gas from NNG and an additional 1,900 units of seasonal (3 month) FT from Viking. The Company planned to "backhaul" the gas: receive gas from Northern into the Viking system at the Chisago interconnect to replace the additional gas taken off upstream on the Viking system to serve Viking customers.

Peoples sought the increases in entitlements because its firm requirements have exceeded firm entitlements for the last few years. The Company planned on a backhaul arrangement because Viking is a capacity-constrained pipeline system and does not have any forward haul capacity available.

Based on its May 31, 1991 customer count, Peoples estimated that it needed 1,007 additional units from each of the systems to meet its 1991-1992 requirements. After the customer count was updated in December, 1991, the Company estimated that it needed 1,098 additional units from each system to meet the 1991-1992 demand. The Company also requested an additional 802 units from each system to accommodate its estimated 1993-1994 requirements.

The Department agreed with the Company that an increase in firm entitlements was necessary to ensure firm service for Peoples' customers. The Department recommended that the Company be allowed an increase of 1,007 units from each pipeline system.

The Commission agrees with Peoples and the Department that the Company needs additional FT entitlements on both systems to meet the firm requirements of its existing customers on the Viking system. The Company's latest customer count justifies an increase of 1,098 units from each system to meet the 1991-1992 requirements. The Commission therefore finds that this increase is appropriate and reasonable.

The Commission does not agree with the Company that the cost of entitlements which are based on an estimated customer count for the 1993-1994 season should be recovered from existing customers. The Company is free to come back before the Commission at a later date if and when actual customer counts justify an increase in entitlements. The Commission will not allow the additional 802 units which the Company has requested based on an estimated December 1993 customer count. The Commission will therefore limit the increase to 1,098, not 1900, units from each system.

Because Peoples entered into contracts which put its two 1,900 unit increases into effect on November 1, 1991, the Commission

will require a refund of the difference between the 1,900 entitlement increase and the 1,098 units approved in this Order. The refund should be made in the Company's next annual PGA true-up filing.

II. Assignment of Costs

The Department recommended that Peoples assign all costs of the two contractual increases through the PGA to the Company's Viking customers. The Department reasoned that the contracts were entered into in order to accommodate additional Viking customers and therefore Viking customers should bear the cost.

Peoples indicated that it would assign gas costs to the customers served directly off the applicable pipeline. The Company assigned all of the cost of the 1,900 unit 3-month Viking contract to its Viking customers and all of the cost of the 1,900 unit 12-month Northern contract to its Northern customers.

The Commission finds that it is desirable to allocate gas costs according to relative benefits received by the Viking and the Northern customers. In this case, however, it is difficult to assess the exact benefits derived by each customer branch and to allocate precisely. The Commission will therefore create an allocation formula which will match costs as closely as possible to benefits:

1. Costs of the 1,098 units purchased under Peoples' three-month contract with Viking will be assigned to Peoples' Viking customers.
2. Costs of the 1,098 units purchased under Peoples' 12-month contract with Northern will be assigned as follows:
 - a. Costs of the three winter months of purchases (December, January, and February) to Peoples' Viking customers;
 - b. Costs of the remaining nine months of purchases to Peoples' Northern customers.

Since three of the 12 months of Northern purchases are entered into specifically to accommodate Viking customers' winter needs, it is fair to assign three months of the costs of the Northern pipeline purchases to Viking customers.

III. Adequacy of Firm Entitlements for November 1992 and March 1993

Peoples' FT contract with Viking is for the months December, January and February. The Department expressed concern about the Company's ability to deliver gas to its firm customers if a peak-design day occurred in November 1992 or March 1993. The Department cited an instance in the winter of 1990-1991 in which it was necessary for Peoples to curtail its interruptible customers on the Viking system and to use higher priced Authorized Overrun Service (AOS) gas to serve its firm customers.

Peoples responded that it is highly unlikely that a peak-design day would occur in November or March. The Company argued that it would be imprudent to purchase additional FT units to cover the unlikely event of a peak-design day occurring outside of the core winter months. Peoples felt it would be more economical to purchase AOS gas if necessary to cover an unforeseen need than to contract for unnecessary firm entitlements.

The Commission takes official notice that Minnesota winters can be unpredictably long and harsh. Given that fact, the Commission is not convinced that the Company has adequately covered the possibility of a peak-design day occurring in November or March. AOS gas is not a sufficiently reliable source to guarantee meeting the needs of firm customers.

For these reasons, the Commission will require Peoples to submit a filing with the Department outlining the Company's plan for meeting firm heating requirements in November 1992 and March 1993.

IV. The Department's Reporting Requirements

The Department recognized that Viking's capacity-constrained pipeline system left Peoples little choice but to enter into backhaul contracts. The Department remained concerned, however, regarding the reliability of backhaul arrangements to meet customers' firm capacity needs. The Department therefore recommended that the Commission require the Company to submit certain informational filings regarding its backhaul arrangements.

The Commission agrees with the Department that further information is necessary regarding Peoples' backhaul arrangements. The informational filings suggested by the Department should assist the Commission in monitoring the use and reliability of backhauls to serve firm customers on a capacity-constrained system. The Commission will require Peoples to submit the informational filings recommended by the Department.

ORDER

1. Peoples' request for an increase in firm entitlements is approved to the extent of 1,098 units from the Viking system and 1,098 units from the Northern system. In the Company's next annual PGA true-up filing, Peoples shall refund the difference between the 1,900 unit entitlement increase which the Company began passing through on November 1, 1991 and the increase approved in this Order.
2. In the Company's next annual PGA true-up filing, Peoples shall allocate costs of the approved entitlements between Viking and Northern customers according to the following formula:
 - a. Costs of the 1,098 units purchased under Peoples' three-month contract with Viking will be assigned to Peoples' Viking customers.
 - b. Costs of the 1,098 units purchased under Peoples' 12-month contract with Northern will be assigned as follows:
 - i. Costs of the three winter months of purchases (December, January, and February) to Peoples' Viking customers;
 - ii. Costs of the remaining nine months of purchases to Peoples' Northern customers.
3. Within 30 days of the date of this Order, Peoples shall submit to the Department a plan for meeting its design-day firm heating requirements in November 1992 and March 1993.
4. Within 90 days of the date of this Order, Peoples shall submit the following information to the Department:
 - a. A description of the Company's plan for ensuring reliable firm service at all times. The plan must specifically address gas flow interruptions caused by backhauls;
 - b. A report, to continue on a monthly basis, monitoring the reliability of backhauls. The report shall include:
 - i. The amount of gas supply transferred among pipeline systems;

- ii. The related receipt and/or delivery points of all gas supplies connected to the requested FT contracts on both the Northern and Viking systems;
- iii. A complete description of any interruptions of gas flow;
- iv. A full description of any disputes between the distributor, the pipeline and any other party involved in the backhaul contract.

5. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

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